

Health Care Finance and Administration	Section: Financial Eligibility
Policy Manual Number: 010.020	Chapter: Countable and Excluded Income

COUNTABLE AND EXCLUDED INCOME

Legal Authority: 26 USC 36B(d)(2)(B); 42 CFR 435.601; 42 CFR 435.949; 42 CFR 435.952

1. Policy Statement

Income eligibility for certain TennCare Medicaid categories and CoverKids is determined using the Modified Adjusted Gross Income (MAGI) methodology. In general, countable income includes income types that are taxable under federal tax law and excluded income includes income types that are non-taxable.

2. MAGI Income Types

Countable income under the MAGI methodology is based on the taxable income types reported to the Internal Revenue Service (IRS) as part of an individual or household's income tax return. In an effort to simplify income reporting under the MAGI methodology, the Centers for Medicare & Medicaid Services (CMS) and the IRS identified the 11 most often reported income types. These are the income types listed on federal application. Applicants are able to report several different sources of income under one income type.

a. Job

Wages	<p>Wages includes all compensation from employment, and the term is generally defined to mean gross wages. Gross wages after pre-tax deductions are taken out by an individual's employer are countable. The pre-tax deductions may include funds for child care, health insurance or retirement plans that are not taxable.</p> <p>An individual's pay stub may list his or her "federal taxable wages", which subtracts the pre-tax amounts from gross wages. If this amount is provided on a pay stub, the individual should report that number.</p> <p>Wages are counted (considered available to the individual) at the earliest of the following:</p> <ul style="list-style-type: none"> • When received or paid; or • When credited to the individual's account; or • When set aside for the individual's use. <p>Deferred wage payment occurs when wages are paid at a time later than they normally would have been paid. If wage payments are deferred due to circumstances beyond the employee's control, consider the payment earned income when it is actually available to</p>
--------------	---

Health Care Finance and Administration	Section: Financial Eligibility
Policy Manual Number: 010.020	Chapter: Countable and Excluded Income

	him or her. If payments are deferred at the employee's request, determine when the wages would normally have been paid and consider them earned income for that period.
Bonus	Countable. A bonus is a one-time payment that an individual receives in addition to his or her normal job wage or salary.
Commission	Countable. Income received by an individual for services performed. Commission income is often paid based on a percentage of a sale or a fixed amount per sale.
Contractual	Countable. Income paid to an individual based on a contractual agreement. To calculate contractual income, average the full amount of income paid on a contractual basis over the number of months the contract covers.
Tips	Countable. Money and goods received for services performed by food servers, baggage handlers, hairdressers, and others. Tips go beyond the stated amount of the bill and are given voluntarily. All tip income is countable, even if it is not reported to the employer.
Differential	Countable. Payment made to an individual by an employer for a period during which he or she is performing service in the uniformed services while on active duty for a period of more than 30 days. Payment represents all or a portion of the wages the individual would have received if he or she was performing services for the employer.
Older Americans Act	Countable. Title V of the Older Americans Act of 1965 provides part-time jobs for unemployed low-income people age 55 and older who have poor employment prospects. This income type includes wages and salaries paid to individuals as a result of their participation in a program funded under Title V of the Older Americans Act of 1965 as earned income.
Sick or Disability Pay	Countable. Income an employee receives during a temporary absence from work due to an injury, sickness or disability. Sick or disability pay is considered part of an individual's wages for tax purposes.
Volunteers In Service To America (VISTA)	Countable. Income paid to individuals in the VISTA program which may also include food and lodging allowances paid as wages.
Payment from Federal Emergency Management Assistance (FEMA)	Countable. FEMA funds made to a household to pay for rent, food and utility assistance when there is no major disaster or emergency declaration.

Health Care Finance and Administration	Section: Financial Eligibility
Policy Manual Number: 010.020	Chapter: Countable and Excluded Income

not due to a Disaster or Emergency	
Earned In-Kind Wages	Countable. Non-cash compensation received by an individual for work performed in place of, or in addition to, wages, profit or payment in cash. The value of in-kind wages is determined by the current market value of the item minus the amount of the outstanding balance due on the item, if any.
Earned In-Kind Food	Countable. Food received by an individual for work performed in place of, or in addition to wages, profit or payment in cash.
Earned In-Kind Food and Shelter	Countable. Food and shelter received by an individual for work performed in place of, or in addition to, wages, profit or payment in cash.
Earned In-Kind Shelter	Countable. Shelter received by an individual for work performed in place of, or in addition to, wages, profit or payment in cash.
Earned In-Kind Not Food or Shelter	Countable. Clothing or other goods received by an individual for work performed in place of, or in addition to, wages, profit or payment in cash.
Severance	Countable. Severance pay is countable earned income in the month received.

b. Self-Employment

i. Overview

Net earnings from self-employment are countable income when determining eligibility. Self-employment is the act of engaging in a trade or business. A trade or business is generally an activity carried on for a livelihood or in good faith to make a profit. Individuals may be contractors, franchise holders, owners, operators, partners, etc. An individual must meet all of the following criteria to be considered self-employed:

- Earns income directly from the business or trade, not from wages or salary from an employer;
- Responsible for the payment of their entire Social Security and federal withholding taxes;
- Does not have an employee/employer relationship with another individual and the services performed cannot be controlled by an employer; and
- Should file self-employment tax forms (Schedule F, C, C-EZ, SE, etc.).

Net income is the gross income from any trade or business minus allowable deductions for that trade or business. Allowable deductions include expenses paid to operate the business or participate in the trade, including:

Health Care Finance and Administration	Section: Financial Eligibility
Policy Manual Number: 010.020	Chapter: Countable and Excluded Income

- Car and truck expenses;
- Depreciation;
- Employee wages and fringe benefits;
- Property, liability or business interruption insurance;
- Interest on business loans;
- Legal and professional services;
- Rent or lease of business property and utilities;
- Commissions, taxes, licenses and fees;
- Advertising;
- Contract labor; and
- Repairs and maintenance.

There are different types of self-employment business structures. Some common structures include:

- Sole Proprietorships: A self-employment business that is not incorporated and has one or two owners. A Limited Liability company (LLC) is not a sole proprietorship;
- Independent Contractors: An individual who pays his or her own employment taxes and does not have an employee/employer relationship is considered self-employed, unless incorporated or an LLC; and
- Sharecroppers: If a sharecropper pays the costs of doing business and receives a portion of the net income in exchange for his or her labor, he or she is considered self-employed, unless incorporated or an LLC.

If an individual is self-employed and has a partner, the individual's self-employment net earnings will be based on his or her distributive share from the business.

ii. Federal Income Tax Return Forms

A. Net Earnings from Self-Employment (NESE)

Self-employed individuals report their NESE on the Schedule SE tax form. Other forms may be used to report income (Schedule C, Schedule F, etc.) but the amount listed on Schedule SE should be used to verify self-employment earnings whenever possible. The NESE is the gross income from any trade or business less allowable deductions for that trade or business. NESE also includes any profit or loss in partnership. For the purpose of determining eligibility, count the NESE on a taxable year basis and divide the total of these earnings equally among the months in the taxable year.

Verify net earnings from self-employment on Schedule SE. The amount of net earnings from self-employment that should be reported based on a Schedule SE may be found under: Section A, line 4 or Section B, line 4.c. If line 4 or 4.c. show a positive amount of less than \$400, then line 3 is used even if the amount on line 3 is greater than \$400.

Health Care Finance and Administration	Section: Financial Eligibility
Policy Manual Number: 010.020	Chapter: Countable and Excluded Income

Schedule SE may not be available or usable when:

- An individual has started a new business and was not self-employed in the prior tax year;
or
- An individual has applied for or is receiving Title II (Social Security) benefits.

B. Schedule C

Used to report profit or loss from a Sole Proprietor business (general). Net profit or loss is listed on the Schedule C.

C. Schedule F

Used to report income and expenses from a farm operation. Net profit or less is listed on the Schedule F.

D. Business Records

When a federal income tax return is not available, or the individual has made changes, stopped or added to the business, business records may be used to determine net earnings. When business records are used, use the individual's gross income and allow the same deductions that are allowed by the IRS.

c. Rental or Royalty Income

Rental Income	<p>Rental income is the amount an individual receives for use of his or her property after all property expenses are subtracted. Net rental income is countable when determining eligibility.</p> <p>Gross Rental Income: All rental income that an individual collects for the use of his or her property is included in gross rental income.</p> <p>Rental Expenses: Rental expenses that may be deducted from gross rental income include:</p> <ul style="list-style-type: none"> • Pre-rental expenses (expenses related to managing, conserving and maintaining rental property from the time property is available to rent); • Advertising; • Cleaning and maintenance; • Utilities; • Fire and liability insurance;
----------------------	---

Health Care Finance and Administration	Section: Financial Eligibility
Policy Manual Number: 010.020	Chapter: Countable and Excluded Income

	<ul style="list-style-type: none"> • Taxes; • Interest; • Commissions for the collection of rent; • Ordinary and necessary travel and transportation; and • Legal and other professional fees. <p>Other considerations: If an individual only rents part of his or her property, expenses must be divided between the part of the property that is used for rental purposes and the part of the property that is used for personal purposes. This also applies if an individual has any use of a personal dwelling unit, such a vacation home, that he or she rents.</p> <p>Counting Rental Income</p> <p>1. Income Received on a Regular Basis.</p> <p>If an individual has a federal tax return available to verify the earnings from last year and the rental situation has not changed, prorate the reported annual profit over 12 months. Count the result as earned income, taking into account any changes for the prorated period.</p> <p>If the individual does not have a federal tax return available from the previous year, determine the monthly income based on the rental/lease agreement in effect and any expenses the individual has paid or expects to pay in that month.</p> <p>2. Income Received Annually or Infrequently.</p> <p>If rental income is received on an annual or infrequent basis, prorate the annual amount including the anticipated changes over 12 months and count the monthly income as earned income.</p> <p>Verification: If verification is required for rental income, request at least one of the following documents:</p> <ul style="list-style-type: none"> • A copy of the rental or lease agreement in effect during the period under consideration; or • A copy of the receipt the individual prepared upon receiving rental income; or • A copy of the previous year's federal income tax return.
Royalty Income	Countable. Royalty income includes any payments an individual

Health Care Finance and Administration	Section: Financial Eligibility
Policy Manual Number: 010.020	Chapter: Countable and Excluded Income

	<p>receives from a patent, copyright or any other natural resource owned by the individual.</p> <p>Royalties are countable unearned income when the individual receives payment based on the use of a natural resource for which he or she owns the usage rights.</p>
--	---

d. Farming or Fishing Income

Farming or fishing income may be considered self-employment income, but should only be counted once.

i. Farming Income

Farming income is countable. Farming income is income received when an individual is in the business of farming if he or she cultivates, operates or manages a farm for profit, either as owner or tenant. A farm can include livestock, dairy, poultry, fish or fruit. It can also include plantations, ranches, ranges and orchards.

ii. Fishing Income

Fishing income is countable. Fishing income includes amounts an individual receives from catching, taking, harvesting, cultivating or farming fish, shellfish, crustacean, sponges, seaweeds or other aquatic forms of animal or vegetable life, as well as money from patronage dividends and fuel tax credits and refunds.

iii. Counting Farming or Fishing Income:

A. Income Received on a Regular Basis

If an individual has a federal tax return available to verify the earnings from last year and the business model remains the same, prorate the reported annual profit over 12 months. Count the result as earned income, taking into account any changes for the prorated period.

If the individual does not have a federal tax return available from the previous year, determine the monthly income received and any expenses the individual has paid or expects to pay in that month.

Health Care Finance and Administration	Section: Financial Eligibility
Policy Manual Number: 010.020	Chapter: Countable and Excluded Income

B. Income Received Annually or Infrequently

If farming or fishing income is received on an annual or infrequent basis, prorate the annual amount with anticipated changes over 12 months and count the monthly income as earned income.

iv. Verification

If verification is required for farming or fishing income, request at least one of the following documents:

- A copy of an agreement executed by the owner and the individual working the farm (the individual could be either the owner or the tenant); or
- A copy of the most recent profit or loss statement; or
- A copy of the previous year's federal income tax return.

e. Social Security Benefit

Income received from Social Security disability, retirement (Railroad Retirement Board income) or survivor's benefits each month is countable for individuals required to file taxes. Social Security is also countable for individuals when income other than Social Security is over the tax filing threshold. The individual must provide the amount of benefit prior to any deductions, such as Medicare premiums, income tax withholding, overpayments, child support or alimony.

Countable Social Security income types include:

- Social Security Disability Income;
- Railroad Retirement Board Income; and
- Survivor's Benefits.

Note: This is not Supplemental Security Income (SSI). SSI is not countable income.

Income received from Social Security each month is not counted for tax dependents who are not required to file taxes. Social Security income is also not counted for children included in a natural or biological, adopted or step parent's household when the child's income other than Social Security is under the tax filing threshold.

f. Unemployment

Count the full value of unemployment compensation benefits as available unearned income in the month of receipt. Unemployment compensation includes any amount received under an unemployment compensation law of the United States or a state.

Health Care Finance and Administration	Section: Financial Eligibility
Policy Manual Number: 010.020	Chapter: Countable and Excluded Income

If verification is required, verify the amount of unemployment benefits received with one of the following:

- Documentary evidence from the Tennessee Department of Labor and Workforce Development; or
- Access through data matches available in the system; or
- Documentary evidence from the state of issuance showing unemployment benefits are from another state.

g. Retirement

Payments an individual receives from a retirement account may be countable depending on the type of account, how much was contributed to the account, and whether the amount contributed was already taxed. Qualified income from a designated Roth account is not countable.

The amount of distributions received from a pension account should be provided on the application, even if the individual is not retired. Retirement income may include the following:

- Qualified employee plan; or
- Individual Retirement Accounts (IRAs).

h. Pension

i. Pension

A pension is generally a series of definitely determinable payments made to an individual after retiring from active employment. Pension payments are made regularly and are based on such factors as years of service and prior compensation. Pension payments are generally made to an individual after retiring from active employment.

Pension income may be countable depending on the type of pension account, how much was contributed to the pension account, and whether the amount contributed was already taxed. Qualified income from a designated Roth account is not countable.

The amount of distributions received from a pension account should be provided on the application, even if the individual is not retired.

ii. Annuities

An annuity is a type of trust with periodic payments that are generated by a bank or insurance company from funds deposited by the individual either in a lump sum or installments to establish a source of income for a future period.

Health Care Finance and Administration	Section: Financial Eligibility
Policy Manual Number: 010.020	Chapter: Countable and Excluded Income

Annuity income is subject to the same treatment as pension income for the MAGI categories. The amount of distributions received from a pension account should be provided on the application, even if the individual is not retired.

i. Capital Gains

Countable. A capital gain is income an individual receives when a capital asset is sold and an individual makes a profit. Capital assets include a home, household furnishings, and stocks and bonds held in a personal account. When a capital asset is sold, the difference between the amount paid for the asset and the amount it is sold for is a capital gain or capital loss.

j. Alimony Received

Countable. Alimony received is money paid to an individual from a spouse that the individual no longer lives with, or a former spouse, if part of a divorce agreement, separation agreement or court order. Payments designated in the agreement or ordered as child support or as a non-taxable property settlement are not alimony.

k. Investment Income

Countable. Dividends and interest are returns on capital investments such as stocks, bonds, and savings accounts, included accrued interest on loans made by the individual.

Count income received on a monthly basis in the month the individual receives it, or the month it is available for his or her use. Convert interest payments received on other than a monthly basis to a monthly amount by prorating the payment over the accrued period.

Investment Income Types:

Stocks and Bonds	Income that an individual receives from stocks, bonds or mutual funds that he or she owns are countable.
Certificate of Deposit	The accrued interest, based on the individual's percentage of ownership, when the certificate of deposit has reached maturity is countable.
Checking Account	The interest an individual receives on their checking account, based on percentage of ownership, is countable.
Life Insurance	Interest income received as a result of life insurance proceeds is taxable income and countable for the purpose of determining eligibility. Life insurance proceeds paid to an individual because of the death of the insured person are not countable.
Retirement Account	Interest income received on a traditional IRA is countable when received.
Savings Account	The interest an individual receives based on the individual's percent of ownership of a savings account is countable.

Health Care Finance and Administration	Section: Financial Eligibility
Policy Manual Number: 010.020	Chapter: Countable and Excluded Income

Contract for Deed	Income paid to an individual from the repayment of property debt is countable.
Promissory Note	A promissory note is a promise in writing to pay an individual at a future date. Interest income an individual receives from a promissory note is countable.

I. Other Income

Canceled Debts	The amount of a debt that an individual is no longer required to pay, or that is forgiven, is countable as income in the month received.
Cash Support	<p>If an individual is claimed as a tax dependent by someone other than a spouse or parent, any cash support provided by the tax filer in excess of \$30 a month is countable as income in the month received.</p> <p>If an individual receives a Community Spouse Income Maintenance Amount (CSIMA) or a Dependent Income Maintenance Amount (DIMA) from an institutionalized individual who is receiving Medicaid in another state, the CSIMA or DIMA may be counted as cash support.</p>
Court awards	<p>Settlement amounts that are received, either by compromise or judgment, may be countable income based on the item that the settlement replaces. The following settlements or awards are countable income:</p> <ul style="list-style-type: none"> • Interest on any award; • Compensation for lost wages or lost profits in most cases; • Punitive damages; • Amounts received in settlement of pension rights (if the individual did not contribute to the plan); • Damages for patent or copyright infringement, breach of contract, or interference with business operations; • Back pay and damages for emotional distress received to satisfy a claim under Title VII of the Civil Rights Act of 1964; and • Attorney fees and costs where the underlying recovery is included in gross income. <p>Compensatory damages for personal physical injury or sickness are not countable income.</p>
Gambling, prizes or awards	Gambling winnings, including lottery winnings, are countable income. In addition to cash winnings, an individual must include the fair market value of bonds, cars, houses or other noncash prizes won

Health Care Finance and Administration	Section: Financial Eligibility
Policy Manual Number: 010.020	Chapter: Countable and Excluded Income

	as part of his or her countable income. Prizes that are not taxable, such as academic scholarships, are excluded as income.
Jury Duty Pay	Jury duty pay is countable income. Any jury duty pay that is turned over to the individual's employer may be excluded. Individuals must enter the amount of jury duty pay received. Reimbursements or allowances received separately from jury duty pay for travel to and from courthouse, for meals and lodging are excluded.

m. Medicaid Exceptions to the MAGI Methodology

MAGI-based income for TennCare Medicaid and CoverKids uses the same financial methodologies defined in section 36B(d)(2)(B) of the Code (which defines countable income as taxable income), with the following 3 exceptions:

- i. Amounts received as lump sums are counted as income only in the month received;
- ii. Scholarships, awards or fellowship grants used for education purposes and not for living expenses are excluded; and
- iii. All of following Indian/Alaska Native related income is excluded:
 - a. Distributions from Alaska Native Corporations and Settlement Trusts.
 - b. Distributions from any property held in trust, subject to federal restrictions, located within the most recent boundaries of a prior federal reservation, or otherwise under the supervision of the Secretary of the Interior.
 - c. Distributions and payments from rents, leases, rights of way, royalties, usage rights or natural resource extraction and harvest from:
 1. Rights of ownership or possession in any lands described in paragraph (5)(iii)(b) of this section; or
 2. Federally protected rights regarding off-reservation hunting, fishing, gathering or usage of natural resources.
 - d. Distributions resulting from real property ownership interests related to natural resources and improvements:
 1. Located on or near a reservation or within the most recent boundaries of a prior reservation; or

Health Care Finance and Administration	Section: Financial Eligibility
Policy Manual Number: 010.020	Chapter: Countable and Excluded Income

2. Resulting from the exercise of federally-protected rights relating to such real property ownership interests.
 - e. Payments resulting from ownership interests in or usage rights to items that have unique religious, spiritual, traditional or cultural significance or rights that support subsistence or a traditional lifestyle according to applicable Tribal law or custom.
 - f. Student financial assistance provided under the Bureau of Indian Affairs education programs.

n. Excluded Income

The income types in the table below are excluded when determining income eligibility under the MAGI methodology for TennCare Medicaid and CoverKids.

Child Support	Child support payments made to a child under court order. Child support payments, including child support arrearages and lump sums, are excluded.
Adoption Subsidies	Payments to an individual from state adoption assistance programs or Title IV-E funds for special needs children are excluded.
Assistance Payment from Another State	Financial assistance provided by another state to help a family pay for necessity items such as food, clothing, housing, utilities and other basic needs. Payments from another state in the form of Food Stamps and TANF indicate that the individual is considered a resident of another state.
Community Spouse Income Maintenance Allowance (CSIMA)	If an individual has a spouse receiving institutionalized Medicaid, the individual may receive the CSIMA. The CSIMA is an allocation of income intended to keep the spouse of an institutionalized individual residing in the community. If the individual is receiving the CSIMA and the spouse is not part of the individual's household when determining eligibility, the CSIMA is excluded.
Dependent Income Maintenance Allowance (DIMA)	If the individual is a dependent of someone receiving institutionalized Medicaid, individual may receive a DIMA. The DIMA is an allocation of income from an institutionalized individual to a dependent residing in the community intended to cover living costs. If the applicant is receiving the DIMA and the institutionalized individual is not part of his or her household, the DIMA is excluded.
Earned Income Tax Credit	Earned income tax credit payments received as advance payments or as refunds are excluded.
Gifts	Occasional monetary gifts to the household, such as money received

Health Care Finance and Administration	Section: Financial Eligibility
Policy Manual Number: 010.020	Chapter: Countable and Excluded Income

	as a birthday, anniversary, graduation or Christmas present, are excluded. Irregular or infrequent gifts received are excluded.
Income Not Pursued	<p>Income not pursued includes payments for which an individual could apply on an ongoing or one-time basis that could include annuities, pensions, retirement benefits or disability benefits. These payments are excluded.</p> <p>Note: The individual may be found not eligible due to failure to apply for other benefits.</p>
Military Allotments	Military allotments are payments made to service members and their families for specific needs. Excluded military allotments include allowances such as the Family Subsistence and Supplemental Allowance or a Basic Allowance for Housing.
Payment from FEMA due to a Disaster or Emergency	FEMA payments issued as a result of a presidentially declared emergency or major disaster are excluded. Payments made by comparable disaster assistance programs by states, local governments and disaster assistance organizations are also excluded.
Plan to Achieve Self Support (PASS)	PASS is an agreement between an individual with a disability or blindness and the Social Security Administration (SSA) which allows the individual to set aside income or resources to pursue a work goal. Income an individual uses to pursue PASS is excluded. Individuals with PASS plans are SSI recipients.
Protective Payee Payment	A Protective Payee is someone designated by the SSA to help a beneficiary manage his or her benefits. Funds received by a protective payee and used for the care and maintenance of a third party beneficiary (adult or child), who may or may not be part of the protective payee's household, are excluded.
Social Services	Social Services payments, including governmental benefit programs that are based on need such as TANF and Food Stamps, are excluded.
SSI	SSI is non-taxable and excluded from countable income.
TANF Child Support Supplemental Payment (TANF)	State collected child support that is passed through to families receiving TANF assistance is excluded. TANF payments are issued to TANF families based on child support collected from a non-custodial parent.
Temporary Disability Insurance	Compensation received for loss of wages caused by temporary non-occupational disability is excluded. These are payments an individual does not receive from an employer. Payments received from an employer are considered Sick or Disability Pay.
Unearned In-Kind Food, Shelter	Unearned in-kind food or shelter is excluded.

Health Care Finance and Administration	Section: Financial Eligibility
Policy Manual Number: 010.020	Chapter: Countable and Excluded Income

Veterans Affairs Benefits	All VA payments are excluded.
Workers Compensation	Payments an individual receives for occupational sickness or injury, and that are paid under a workers' compensation act or statute in the nature of the worker's compensation act, are excluded.
Education Income Not Work Study	Income received through federal student aid, such as grants and loans, except for income received through work study.
Education Income Work Study	Earned educational income directly contingent upon the individual attending an institution of higher education, including work study and stipends, is excluded.
Workforce Investment Act	The Workforce Investment Act (WIA) replaced the Job Training Partnership Act (JPTA). All WIA payments are excluded earned income.